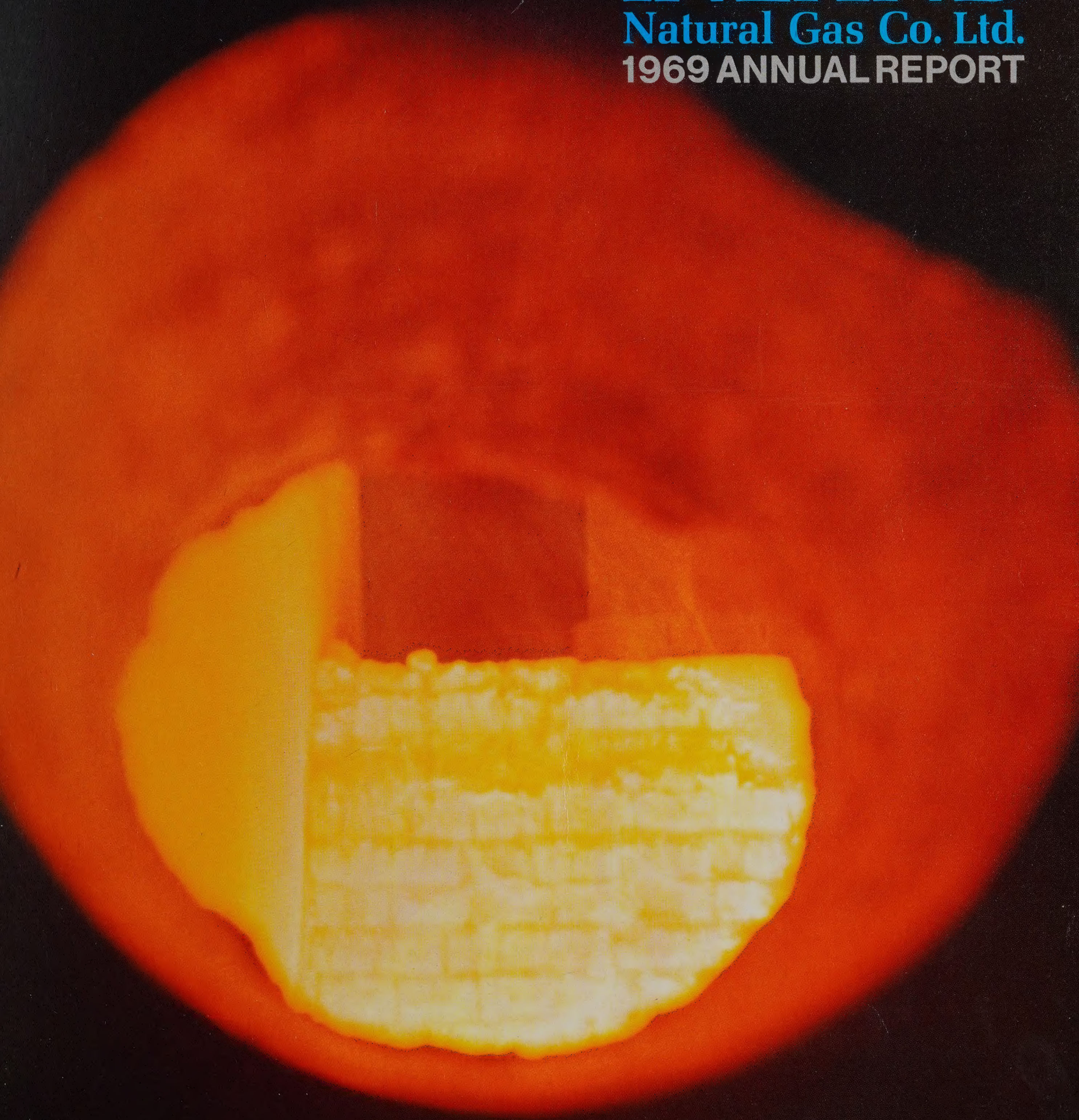
INLAND
Natural Gas Co. Ltd.
1969 ANNUAL REPORT



DIRECTORS

Norman R. Whittall	Chairman of the Board, Inland Natural Gas Co. Ltd.
Fred B. Brown	Vice-President, The Bank of Nova Scotia
William Manson	Retired, former Regional Vice-President, Canadian Pacific Railway
Cyrus H. McLean	Chairman, B.C. Telephone Company
John A. McMahon	President, Inland Natural Gas Co. Ltd.
Roderick M. Hungerford	President, Flex-Lox Industries Ltd.

All directors reside in Vancouver, B.C.

OFFICERS

John A. McMahon	President and Chief Executive Officer
Richard B. Stokes	Executive Vice-President, Finance and Operations
Donald R. MacPhail	Vice-President and Secretary
Fred B. Brown	Vice-President

OTHER EXECUTIVES

Clifford I. Kleven	Controller
Robert E. Kadlec	Chief Engineer

HEAD OFFICE

1075 West Georgia Street, Vancouver 5, B.C.

REGISTRAR

Canada Permanent Trust Company, Vancouver, B.C.

TRANSFER AGENT

Canada Permanent Trust Company,
Vancouver – Calgary – Toronto – Montreal

AUDITORS

Riddell, Stead & Co.

WHOLLY-OWNED SUBSIDIARIES

Peace River Transmission Company Limited
St. John Gas & Oil Co. Ltd. (N.P.L.)
Grande Prairie Transmission Co. Ltd.
Inland Development Co. Ltd.
Inland Transmission Co. Ltd.
Inland Development (1957) Co. Ltd.

17th Annual Report for the fiscal year ended June 30, 1969

ANNUAL MEETING—10:30 A.M. P.S.T., OCTOBER 30th, 1969, HOTEL GEORGIA, VANCOUVER, B.C.

FIDELITY COLOUR FC PRINTED IN CANADA BY EVERGREEN PRESS LIMITED

INLAND NATURAL GAS CO. LTD.

1075 WEST GEORGIA STREET

VANCOUVER 5, B.C.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 17th Annual General Meeting of Inland Natural Gas Co. Ltd. will be held at the Queen Anne Room, Hotel Georgia, 801 West Georgia Street, Vancouver, British Columbia, Canada, on Thursday, the 30th day of October, 1969 at the hour of 10:30 a.m. (Vancouver time) for the following purposes:

1. To receive and consider the report of the Directors, Statements of Account, Balance Sheet and the report of the Auditors thereon;
2. To elect Directors and appoint Auditors;
3. To present other business as may be legally brought before the Meeting.

DATED at Vancouver, British Columbia, this 25th day of September, 1969.

BY ORDER OF THE BOARD

D. R. MacPhail

Secretary

INFORMATION CIRCULAR

Solicitation of Proxies

This information circular is furnished in connection with the solicitation by the Management of Inland Natural Gas Co. Ltd. (the "Company") of proxies to be used at the Annual General Meeting of Shareholders of the Company to be held at the time and place and for the purposes set forth in the above Notice of Meeting. It is expected that the solicitation will be primarily by mail. The cost of solicitation by Management will be borne by the Company. The Company may pay persons holding stock in their names or those of their nominees for their expenses in sending soliciting material to their principals.

Appointment and Revocation of Proxies

The persons named in the accompanying form of proxy are Directors of the Company.

A shareholder desiring to appoint some other person to represent him at the meeting may do so either by inserting the name in the blank space provided in the form of the accompanying proxy or by completing another form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company.

A shareholder who has given a proxy may revoke it either, (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Company, or (b) as to any matter to which a vote shall not already have been cast pursuant to the authority covered by such proxy, by signing written notice of revocation and delivering it to the Secretary of the Company or the Chairman at the Meeting.

Exercise of Discretion by Proxies

The persons named in the accompanying form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. In the absence of such direction, shares shall be voted for the approval of the Directors' Report and Financial Statements, and for the election of Directors and the appointment of Auditors as stated under those headings in this circular. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of the Meeting, and with respect to other matters which may properly come before the meeting. At the time of printing this circular the Management of the Company knows of no such amendment, variations or other matters to come before the meeting other than the matters referred to in the Notice of Annual General Meeting.

Voting Shares

On the 25th day of September, 1969 the Company had outstanding 2,571,843 Common shares with a par value of $1.00 per share, each carrying the right to one vote per share. The Directors and Senior Officers of the Company do not know of any person or company beneficially owning, directly or indirectly, shares carrying more than 10% of the voting rights attached to the shares of the Company.

The Directors have fixed the 3rd day of October, 1969 as the record date for the determination of the persons entitled to receive notice of and to attend and vote at the Meeting.

Election of Directors

The Articles of the Company provide that the number of Directors shall be not less than two nor more than nine and it is intended that the number of Directors acting on behalf of the Company shall be six to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below, all of whom are now members of the Board of Directors and have been since the date herein indicated. The Management does not contemplate that any of the nominees will be unable to serve as a Director

but, if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Each Director elected will hold office until the next Annual General Meeting or until his successor is duly elected, unless his office is earlier vacated in accordance with the Articles of the Company.

The following table and notes thereto state the names of all the persons proposed to be nominated for election as Directors, all other positions and offices with the Company now held by them, if any, the member's occupation or employment, the year in which they became Directors of the Company, and the approximate number of Common shares of the Company beneficially owned directly or indirectly by each of them as of the 23rd day of September, 1969.

	Became Director	*Common Shares*
NORMAN R. WHITTALL, of Vancouver, B.C., Industrialist, formerly President of Norman R. Whittall Ltd., Investment Dealers. President of Company from 1952 to 1956. Is now Chairman of the Board for the Company which office he has held since 1956.	1952	75,000
JOHN A. McMAHON, of Vancouver, B.C., President and Chief Executive Officer of the Company which office he has held since 1956. From 1952 to 1956 he served as Executive Vice-President of the Company.	1952	166,170
FRED B. BROWN, of Vancouver, B.C., Independent Financier. Vice-President of the Company which office he has held since 1956.	1952	63,140
WILLIAM MANSON, of Vancouver, B.C., Retired. Formerly Regional Vice-President, Western Division, Canadian Pacific Railway Company.	1958	220
CYRUS H. McLEAN, of Vancouver, B.C., Chairman of B.C. Telephone Co.	1960	2,955
RODERICK M. HUNGERFORD, of Vancouver, B.C., President of Flex-Lox Industries Ltd. as of 1968.	1966	4,000

Notes: (a) The information as to shares beneficially owned, not being within the knowledge of the Company, has been furnished by the respective Directors individually.

(b) Unless otherwise stated above, each of the above named persons has held the principal occupation of employment indicated for at least five years.

Remuneration of Directors and Senior Officers

1. Aggregate direct remuneration paid or payable by the Company in the fiscal year ending June 30, 1969 to the Directors and Senior Officers of the Company $136,624.00

2. Estimated aggregate cost to the Company in the fiscal year ending June 30, 1969 of all pension or retirement benefits proposed to be paid to the Directors and Senior Officers of the Company under existing plans in the event of retirement at the normal retirement age $ 15,906.06

Appointment of Auditors

The persons named in the enclosed form of proxy intend to appoint Messrs. Riddell, Stead & Co., Chartered Accountants of Vancouver, as Auditors of the Company to hold office until the next Annual General Meeting of Shareholders. Messrs. Riddell, Stead & Co., have been the Auditors of the Company since the date of the incorporation of the Company in 1952.

DATED at Vancouver, British Columbia, this 25th day of September, 1969.

HIGHLIGHTS

	1969	*1968*
FINANCIAL		
Sale of Gas	$14,717,800	13,307,665
Operating Revenue	$15,280,540	13,787,500
Net Income	$ 2,282,897	2,548,421
Net Income per Common Share	77c	92c
Dividends on Common Shares	50c	42.5c
Dividends on Preference Shares	$ 1.00	1.00
Cash Flow from Operations	$ 3,401,650	3,615,149
Cash Flow from Operations per Common Share	$ 1.40	1.54
Total Assets	$51,677,387	46,825,200
OPERATING		
Total Gas Sales (MMcf)	20,495	20,070
Number of Customers	36,000	33,915

CONTENTS

FRONT COVER: Energy at work. An inspection port view of the intense heat generated by natural gas inside a large processing boiler.

BACK COVER: Natural gas provides comfort in high-rise apartment building outlined against Prince George night sky.

TO OUR SHAREHOLDERS

The twelve months ending June 30, 1969, marked the completion of another record year for your Company. Gas sales from utility operations were $13,960,737, an increase of $1,415,437 over last year. The pre-tax earnings were 99c per share. After providing $533,337 for income tax, net earnings available for the common shares were equal to 77c per share. In the previous year, the earnings per share were 92c. The main items that contributed to lower earnings per share were an increase in the average number of shares outstanding, the higher unit cost of purchasing natural gas from our supplier due to the system operating at a lower load factor than in the previous year, and your Company's initial income tax obligation. (These matters are all dealt with in greater detail in the accompanying Directors' Report.)

Probably the most gratifying development and one that augers well for the future is the considerable number of new industries that have decided to build manufacturing plants in your Company's service area. Plants under construction which will be major consumers of natural gas include: Hiram Walker & Sons Limited—a $30 million distillery at Winfield; Lafarge Canada Ltd—a $12 million, 1,200,000 barrel, cement plant at Kamloops; and Consumers Glass Company Limited—a $10 million plant near Vernon. The latter two will be on stream during the fiscal year 1969-70.

Other large industrial projects underway include Kamloops Pulp & Paper Co. Ltd. (a subsidiary of Weyerhaeuser Company of Tacoma, Wash.)—a $90 million expansion program instead of $80 million as first planned; Crown Zellerbach Canada Limited—a $4½ million corrugated container plant at Kelowna; and Fibreplast Products at Winfield, which is a major supplier to the western Canadian fibreglass industry.

A significant announcement in respect to the prolific copper mining industry of the Highland Valley-Princeton-Brenda region in your Company's service area, is the proposed construction of a $20 million copper smelter at Princeton by the Kettle Valley Smelting and Refining Co. Ltd. According to the announcement, Pechiney Development Ltd., Canadian arm of the worldwide French company of the same name, has promised financial assistance to bring the refinery into production, providing the company receives assurances from the federal government that it will obtain tax concessions under the Area Development Act (which ends March 1, 1971), or the new Federal Regional Development Act.

With respect to the forest products industry, confidence in its future is being demonstrated by recent decisions to proceed with construction of new processing plants in your Company's service area. Latest to announce plans to build a new sawmill is Northwood Mills Ltd., which will take advantage of the Federal Area Development Incentive Legislation with a $3 million project at Princeton. Trilam Wood Products Ltd. is building a $1.8 million particleboard plant at Salmon Arm and a similar $2 million plant is under construction by Parta Industries Ltd. at Grand Forks. At Quesnel, West Fraser Mills Ltd. plans to spend $2 million on a new sawmill, and Tubafour Stud Mills Ltd. will invest $1.5 million in a similar project. More than $6 million in new sawmill construction in the Quesnel area has been allocated so far this year.

The surge of industrial activity has created a tremendous demand for housing, schools, hospitals, and shopping centres. Marathon Realty Co., a subsidiary of Canadian Pacific Investments, is presently involved in developing a $5 million shopping centre in Kamloops and, together with Okanagan Holdings Ltd., will build a $34 million combined shopping and residential centre three miles east of Kelowna.

An important segment of your Company's service area is the West Kootenays in southern British Columbia, which includes the cities of Nelson, Trail, Rossland, Castlegar and Kinnaird. This area is now designated by the federal government to qualify for federal cash grants for new plants and expansions. We are very optimistic that through the efforts of the industrial development commissions, set up in that area by groups of enterprising citizens, industry will be attracted to settle in the area to take advantage of the federal incentive program.

Your company is in an excellent financial position to provide the facilities to finance this customer growth.

Yours sincerely,

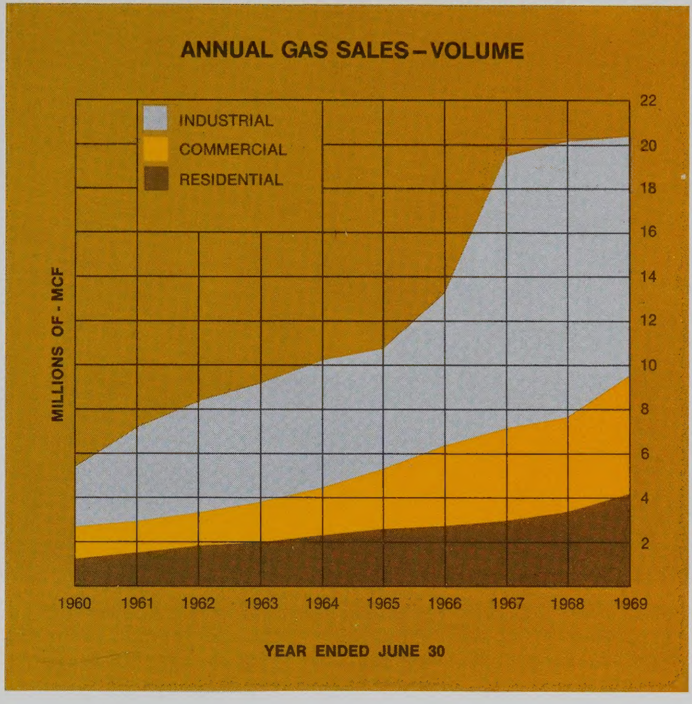
President

September 19, 1969

THE YEAR IN REVIEW

Revenue

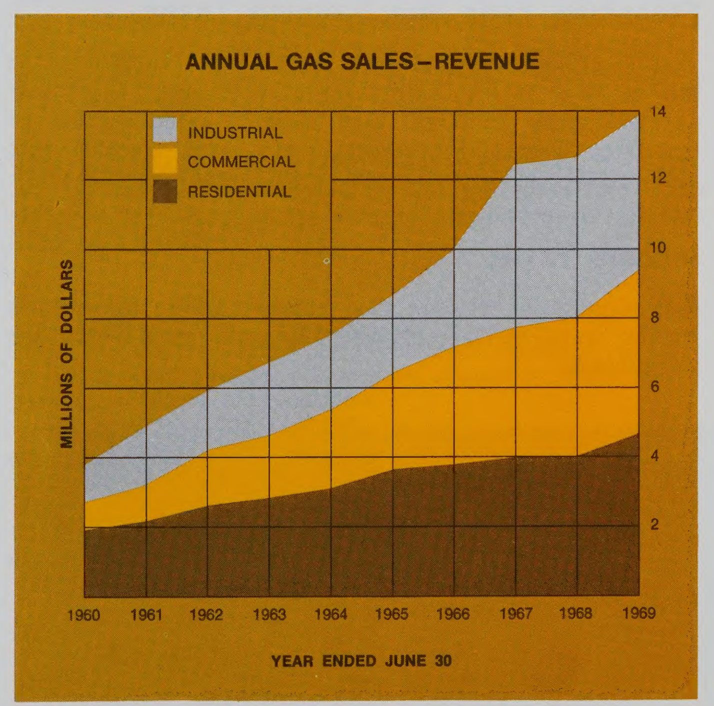
Inland's gas revenues increased materially during the current fiscal year. This increase can be attributed primarily to a much colder year than the previous one. Your Company's service area experienced one of the severest winters and some of the most extreme temperatures in its history. The effect of this year's weather was to increase materially the gas usage and revenue for both residential and commercial customers. This increase in revenue was partially offset however because Inland was forced to curtail, for a lengthy period, interruptible sales to its large industrial consumers. This interruption was necessitated by the almost complete curtailment by our supplier of winter interruptible gas. The graphs to the right illustrate the volumes and related dollar values for each customer classification of sales. Other operating revenue, which includes revenue from the sales and rental of gas appliances under various finance plans, interest calculated on plant under construction, and also profit derived from the purchase of the Company's bonds and debentures for sinking fund purposes, increased to $302,244 from $264,920 in the previous year.



Operating Expenses

The largest single item of expense incurred by your Company is the cost of natural gas purchased. The cost of gas during the current year was $6,702,964 compared to $5,971,774 in the previous year. The matter of gas supply and related cost is dealt with further on in this report.

Operating and maintenance expenses increased to $1,322,044 during the year under review from $1,050,348 in the previous year. A large portion of this increase can be attributed to the severe winter experienced during the current year. Temperatures as low as 40° below zero necessitated around-the-clock service and maintenance of the transmission and distribution systems. Some costly repairs to both transmission and distribution systems were necessitated by flooding in the Trail area of the West Kootenays.



The Company employs, on the average, approximately 210 employees which is a slight increase over the previous year. The Company has many benefit programmes such as pension, medical services, sickness and disability insurance and group life insurance. These plans are shared by all employees. The total cost of salaries and wages including benefits for the current year was $1,745,000. This was a major increase over the previous year's total of $1,481,000. A major portion of new plant construction is performed by the Company's own work force and therefore a substantial part of salaries, wages and related costs are capitalized.

During the current year a new contract was consummated with the International Brotherhood of Electrical Workers Union, who represent most of the Company's outside workers.

The Office and Technical Employees Union, representing a large portion of the Company's technical and clerical employees, is presently negotiating for a new agreement since the old one expired on April 1, 1969. At the time of writing this report, no new agreement has been reached but the Company has made provision in its accounts for an increase for the period April 1 to June 30, 1969.

One of Inland's 1968-69 expansion projects was the extension of gas service to Princeton. Illustrated is the 42 mile project in progress. Left to right: Unloading pipe—preparing the trench—welding 40 foot lengths—back filling and cleanup of right-of-way.

Franchise Fees and Property Taxes

Your Company continues to be a major contributor to the welfare of the communities it serves. This year approximately $644,500 was paid to communities in franchise fees and property taxes. This amount was almost $90,000 more than was paid in the previous year.

Income Taxes

It is significant to note that Inland's utility operations for the first time have attracted income taxes which are as follows:

	Inland	Subsidiaries	Total
Provided on net income	$527,733	$ 53,967	$581,700
Reduction realized on carry-forward of losses	37,153	11,210	48,363
Net charged against income	490,580	42,757	533,337
Reduction applicable to common share issue costs	48,672	—	48,672
Income taxes payable	$441,908	$ 42,757	$484,665

In accordance with the Companies' regulatory authorities, the Companies continue to follow the taxes payable basis whereby maximum capital cost allowances and other deductions are claimed for income tax purposes in excess of the related amounts recorded in their accounts. This resulted in a reduction of income taxes which would otherwise have been charged against income of $756,000 for the current year.

As mentioned in our last annual report, the Companies' loss-carry-forwards have now been exhausted. However, the projected capital programme will for some long period of time allow capital cost allowances substantially in excess of recorded depreciation. This, together with the continued expensing of capitalized overheads for tax purposes, will result in a relatively low effective rate of income tax on net income.

Under the provisions of the Public Utilities Income Tax Transfer Act the Provincial government receives 95% of the Federal government's share of income taxes paid by the Company in addition to the 10% levy on taxable income paid directly to the provinces.

Capital Expenditures

During the year ending June 30, 1969, natural gas service was extended to more communities than within any other given year since the original construction in 1957. Communities receiving service included Princeton, Falkland, Naramata, Peachland, Westbank, Coldstream, and Midway. The Westsyde area, north of Kamloops, and Lakeview Heights, north of Westbank, also received natural gas this year. Construction of pipeline facilities started this spring to supply the village of Clinton, and at the time of writing this report gas has been turned on. A start was made during June to extend our transmission line in the Coldstream area to serve the new Consumers Glass factory. This line also forms the first phase of the transmission line to serve Lumby, which is due to receive natural gas later in 1969.

A record total 143 miles of transmission and distribution mains were installed during the year. 2,473 new services were connected, totalling 35 miles of service line piping. The total capital expenditure during the year ending June 30, 1969, was $4,253,000 compared to $2,802,000 in the previous year.

The stage is set to demonstrate the advantages of natural gas. Seven cooking schools attracted over 2500 housewives.

Marketing and Sales

Announcements in the Company's service area of new commercial, recreational and industrial projects, together with the expansion of existing facilities, totalled over 200 million dollars in the last twelve months. This has reflected in new jobs, homes and the expansion of schools, hospitals and other service oriented concerns. Inland has been reaping the benefits from all aspects of this rapid growth. Your Company continued to obtain as customers over 90% of new construction on mains and service was promptly extended into new subdivisions and industrial parks as they developed.

Special programs were undertaken throughout the year to further solidify the position of natural gas in the new construction market which included an active role by Inland personnel in local chapters of the National Housebuilders Association and counselling and promotional assistance for builders in model home displays and parades of homes.

To keep designers and builders abreast of new developments, advantages and versatility of gas appliances and services, Inland spearheaded an exposition and gas barbecued supper in six major centers. Gas appliance manufacturers co-operated fully in this promotion to highlight our product for over 500 builders, realtors, architects and engineers. The Company directly reached the general public who were interested in home remodelling or construction through a gas oriented model homes and living exposition in each of the major centers. Attractive exhibits by Inland and major appliance manufacturers featured everything from pilotless gas ranges to gas fired sauna baths. A first in B.C., the exhibition, comprised of approximately 40 booths, utilized over 15,000 square feet of floor space.

Conversions to gas from other fuels in existing homes were also aggressively sought during the year. Because considerable construction had taken place in our service area prior to the availability of natural gas in 1957, approximately 50% of the total dwelling units in urban areas remain potential customers. Activities to obtain customers from this market encompassed the extension of existing mains, special trade-in offers for non-gas heating equipment and water heaters, and the extensive use of window displays, truck cards and point of sale promotional material. Under Inland's load building program, present customers were encouraged to install additional appliances with particular emphasis on cooking, both indoors and out. Gas barbecues were demonstrated in home shows and over 2,500 housewives attended gas cooking schools conducted by an interior T.V. personality in our larger towns.

The opportunity for adding new customers in future will be materially enhanced by the anticipated increase to more than double the present population in our service area by 1985.

Guest receives his western hat from Inland's hostess at one of the Company's series of barbecued suppers for builders, realtors, architects and engineers.

Artist's conception of Hiram Walker & Sons Limited $30 million distillery which is now under construction at Winfield. The plant is the second largest of its kind in Canada. The 160 acre site for the plant was purchased from Inland Development Co. Ltd., a subsidiary of Inland Natural Gas Co. Ltd.

WHOLLY OWNED SUBSIDIARIES

Inland Development Co. Ltd.

During the current fiscal year considerable progress has been made in both the residential and industrial real estate fields. 270 acres of industrial land located between Kelowna and Vernon in the vicinity of Winfield have been purchased for the purpose of establishing an industrial park. This land is situated on rail with close proximity to natural gas, power, water, and the Trans Canada Highway, and is ideally located to serve both British Columbia and Alberta markets. It is also situated in the area qualifying for federal government grants to assist new industry. In order to attract a major industry into the area and at the same time establish the site as an industrial park, the Company sold 160 acres at cost to Hiram Walker & Sons Limited of Walkerville, Ontario, who have announced plans to construct a $30 million distillery complex (pictured above) on the site. The new plant will employ approximately 200 people. There has been a great deal of interest in the remaining acreage and we are hopeful that announcements of further sales will be made very shortly.

The Company has also been active in residential real estate. Twenty acres of choice residential property has been purchased within the City of Vernon. This property should yield approximately 90 lots. The first phase consisting of 26 lots has been subdivided and very recently put on the market. At the time of writing this report the first two lots have been sold and houses will soon be started.

The Company also holds a number of second mortgages on residential and commercial buildings in the northern part of the Inland service area.

Grande Prairie Transmission Co. Ltd.

The Company gathers gas from three fields north of Grande Prairie in the Peace River area of Alberta and transmits the gas to the outskirts of the City of Grande Prairie and five other villages between Grande Prairie and Spirit River, where the gas is sold to Northland Utilities Limited for distribution in these communities. Sales for the year ended June 30, 1969, amounted to 1,320 million cubic feet of natural gas compared to 1,109 million cubic feet in the previous year. This represents a 19% increase which was largely due to the extremely long cold winter during the current fiscal year. During the year, the Company added additional compression to its transmission system at a total cost of $80,000.

Peace River Transmission Company Limited

The Company purchases gas from the gathering system of Westcoast Transmission Company Limited and transmits the gas through 35 miles of transmission lines to the outskirts of the City of Dawson Creek in northern British Columbia, where the gas is sold to Northland Utilities Limited for distribution in Dawson Creek and Pouce Coupe.

Gas sales for the year ended June 30, 1969, were 1,416 million cubic feet compared to 1,834 million cubic feet for the previous year. The decrease in annual sales is due to the fact that the British Columbia Hydro and Power Authority's gas-fueled generating plant in Dawson Creek was shut down completely during the current fiscal year as power for Dawson Creek is now available from the W.A.C. Bennett Dam. Excluding the loss of B.C. Hydro's generating load, annual gas sales for the period were increased over the previous year.

St. John Gas & Oil Co. Ltd. (N.P.L.)

Holds interests in lease selections from former permits 22 and 30 near Fort St. John in northeastern British Columbia.

The Company participates in the production of natural gas and oil.

COLUMBIA NATURAL GAS LIMITED

On March 24, 1969, your Company entered into an agreement with Trans-Prairie Pipe Lines Ltd. to purchase 99.2% of the capital stock of Columbia Natural Gas Limited held by Trans-Prairie. The company serves the East Kootenay area of British Columbia. It is a profitable operation with a bright future. The geographic location of Columbia's service area is not too far removed from Inland's service area in the West Kootenays, which in-

creased our desire to add this company's operation to Inland's utility system. The purchase of the shares was subject to Columbia obtaining approval from the Public Utilities Commission to transfer ownership to Inland. (In turn, the Commission's approval requires the approval of the Lieutenant-Governor-In-Council.) The Commission heard the application in Vancouver on May 23, 1969. The agreement between Trans-Prairie and Inland provided that the transaction was to be completed by June 20, 1969. This date passed without receiving the necessary approvals.

THE SUPPLY AND COST OF NATURAL GAS

Inland purchases natural gas for distribution throughout its service area under billing demand commodity-type contracts from its supplier, Westcoast Transmission Company Limited. The billing demand is established by the maximum daily quantity of firm gas required during the contract year which runs from November 1 to October 31. Due in most part to a few very cold days during the past winter, the billing demand charged for the current fiscal year was $2,244,980 compared to $1,831,780 in the previous year. This was mainly the reason that the unit cost was 32.7c per thousand cubic feet compared to 30.1c per thousand cubic feet in the previous year.

Your Company, in conjunction with outside consultants, has made a thorough examination of the various methods available to reduce the maximum daily demand on the pipeline company during periods of peak loads, thereby minimizing the cost of gas. The most feasible solution available to your Company is a tie-in with the Alberta Natural Gas Company system and the existing Inland system. Inland has a contract for a supply of gas from the Alberta company, and the feature of this agreement is that there is no contract demand. Therefore, this secondary source of gas could be used as peaking gas during the winter months and at the same time increase the capacity of Inland's transmission system and also provide an alternate supply of natural gas in the case of an outage. This contract cannot be implemented until your Company receives permission from the Public Utilities Commission to construct the necessary transmission facilities.

Sinking Fund

During the year, securities were acquired at a discount on the open market to satisfy sinking fund requirements amounting to $656,000.

Financing

During the current fiscal year your Company was successful in completing permanent financing on two separate occasions netting in excess of $7,000,000. These funds were used to retire all short-term indebtedness and improve the working capital position.

The common shareholders of record at the close of business on December 27, 1968 were granted rights to subscribe for additional common shares in the capital of the Company in the proportion of one additional common share for each ten common shares held by them. Pursuant to this offering 230,218 common shares were issued and paid for at the price of $10 per share. 98.3% of the shares were taken up indicating the widespread support given by the Company's shareholders, investment dealers and the investing public.

On June 16, 1969, the Company sold by private placement at par $5,000,000, 8% First Mortgage Sinking Fund Bonds, Series D, with share warrants attached which entitle holders to purchase a total of 75,000 common shares of the Company on or before the close of business on June 15, 1979 at $17.50 per share.

At June 30, 1969 the Company had approximately $1,100,000 cash on hand towards the cost of the 1970 construction programme. The balance of cash requirements will be met by internally generated funds together with the established line of credit with the Company's bankers.

GENERAL

Over 94% of the shareholders of Preferred and Common stock of the Company are resident in Canada. The distribution of each class of shares is set forth herewith:

	Shareholders		Shares Held	
Preferred	1969	1968	1969	1968
Canada	3,482	2,559	398,704	398,747
U.S.A.	13	10	1,015	845
Others	5	8	281	408
	3,500	2,577	400,000	400,000
Common				
Canada	4,149	4,072	1,970,168	1,664,444
U.S.A.	380	399	274,048	256,708
Others	78	90	327,627	420,473
	4,607	4,561	2,571,843	2,341,625

The principal and interest payments on all of the funded debt of the Company are payable in Canadian funds only.

Keeping pace with this activity requires people that have courage, endurance and devotion to their jobs. These we have, and on behalf of the shareholders and directors, I wish to record their sincere thanks.

For the Board of Directors,

J. A. McMahon

September 19, 1969

President.

Environmental climate and good recreational facilities are becoming an important consideration in the location of new industry. Inland's general service area contains some of the most beautiful surroundings and scenic recreational areas in Canada. These are being carefully preserved and developed in balance with industrial expansion. The extensive use of natural gas in plants and buildings such as those illustrated here and on the following pages is contributing to the preservation of clear skies and clean buildings.

Right—Kelowna Golf and Country Club.

Below—An example of the modern transportation facilities serving Inland's area is Pacific Western Airlines recently introduced jet service at Kelowna's new airport.

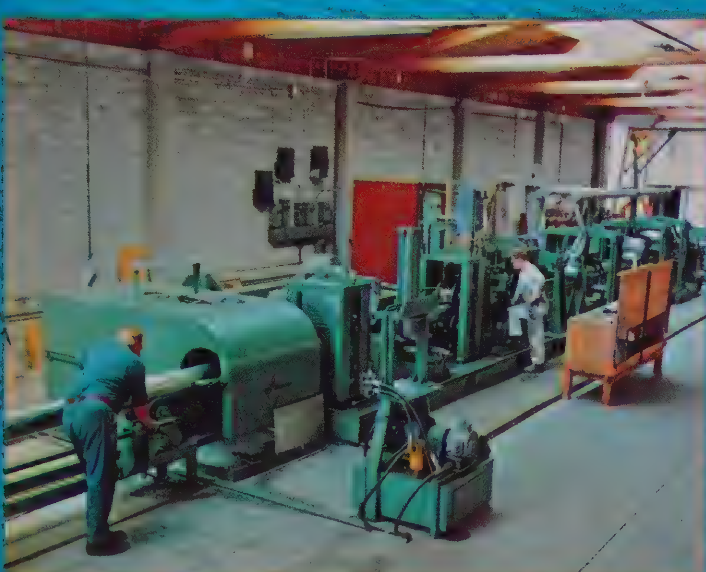
Bottom—Consumers Glass Company $10 million glass container plant at Lavington is in the final stages of construction.

Right—Two new plants manufacturing fibreglass pleasure craft for the northwest market are Canadian Fibreform Ltd., Westbank, and (not shown) Sangstercraft in Vernon.

Below—Welder completes a 12 x 60 foot mobile home chassis in Penticton. Three major mobile home manufacturers in that city will be in production by autumn.

All the plants on this page are within a 15 to 20 minute drive from beautiful Okanagan Lake, the background picture.

Above—Carpet is removed from gas-fired dye vat at Westmills Carpets Ltd., Kelowna.



Bottom left—Alcan Pipe Ltd. plant at Vernon, manufactures aluminum pipe for Okanagan irrigation projects.

The West Kootenay region of Inland's service area has recently become eligible for industrial development grants under the Federal government's new Regional Development Bill. Development commissions are aggressively working to get new industry to locate in that area.

Above—Cominco Ltd. fertilizer plant at Trail. In the foreground are ammonia storage tanks.

Right—Keeping pace with the need for increased public services is the recently rebuilt Castlegar Hospital.

Lower Right—One of Nelson's many parks. Boaters can travel over 100 miles on beautiful Kootenay Lake just beyond the park promenade.

Below—Construction of silo at Parta Industries Ltd. $2 million particleboard plant in Grand Forks.

The North Okanagan and Cariboo areas are benefitting from abundant natural resources which includes recently discovered vast deposits of copper and other minerals now being developed by numerous mining companies. Lumber, plywood and pulp mills also play an important role in the bouyant economy of this area.

Above—The new $12 million Lafarge Cement of North America Ltd. in Kamloops is due for completition in 1969.

Left—Kamloops Pulp and Paper Co. Ltd. existing mill has announced a $90 million expansion making it one of the largest mills in Canada.

Lower Left—Brewmaster inspects sample at Tartan Brewery Ltd., Prince George.

Below—Natural gas-powered engines at Prince George pump up to 12 million gallons of water daily.

Above—An artist's conception of the $34 million Orchard Park project at Kelowna. The 69 acre site will include a 150 room hotel, regional shopping centre, theatre, apartments, condominiums and highrise office blocks. The shopping centre is being developed by Marathon Realty and the balance of the complex by Okanagan Holdings Ltd.

Many new commercial complexes have developed throughout the Company's service area. Two of the most recent and significant examples are illustrated on this page.

Below—Artist's conception of Marathon Realty Company's $5 million shopping centre at Kamloops. Buildings will cover approximately 183,000 sq. ft. and parking will be provided for about 1,000 cars.

INLAND NATURAL GAS CO. LTD.
and Wholly-owned Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED JUNE 30

	1969	1968
OPERATING REVENUE		
Sale of gas	$14,717,800	$13,307,665
Transportation allowance	199,400	151,800
Connection charges	61,096	63,115
Other operating revenue	302,244	264,920
	15,280,540	13,787,500
OPERATING EXPENSES		
Purchase of gas	7,030,368	6,315,797
Operation and maintenance	1,322,044	1,050,348
Provincial and municipal taxes	403,437	360,982
Franchise expense	257,692	211,725
General and administrative (Note 6)	562,104	510,183
Depreciation (Note 7)	1,021,128	969,513
	10,596,773	9,418,548
Income from operations	4,683,767	4,368,952
OTHER DEDUCTIONS		
Interest on funded debt	1,508,100	1,529,267
Other interest	261,808	179,726
Amortization of discount and expense on funded debt	97,625	97,215
	1,867,533	1,806,208
Income before income taxes	2,816,234	2,562,744
Income taxes (Note 8)	581,700	656,000
Income before extraordinary item	2,234,534	1,906,744
Extraordinary item—income tax reduction realized on losses carried forward	48,363	641,677
NET INCOME	$ 2,282,897	$ 2,548,421
EARNINGS PER COMMON SHARE (Note 9), based on:		
Income before extraordinary item	$ 0.75	$ 0.64
Net income	$ 0.77	$ 0.92

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30

	1969	1968
BALANCE AT BEGINNING OF YEAR	$ 5,365,647	$ 4,525,654
Net income for the year	2,282,897	2,548,421
	7,648,544	7,074,075
Dividends on preference shares	400,000	400,000
Dividends on common shares	1,228,367	995,191
Common share issue expenses, net of income tax	52,119	—
Abandonment of non-producing properties	—	313,237
	1,680,486	1,708,428
BALANCE AT END OF YEAR	$ 5,968,058	$ 5,365,647

The accompanying notes are part of these financial statements.

INLAND NATURAL GAS CO. LTD.
and Wholly-owned Subsidiaries

CONSOLIDATED

AS AT

ASSETS

	1969	*1968*
CURRENT ASSETS		
Cash	$ 1,148,511	$ —
Accounts receivable	1,735,236	1,604,143
Mortgages receivable	16,321	16,385
Inventories of materials and supplies, at cost	777,343	725,432
Prepaid expenses	29,615	40,587
	3,707,026	2,386,547
NON-CURRENT ASSETS		
Mortgages and other long term receivables (Note 2)	608,643	678,654
Investment in marketable securities, at cost	100,000	100,000
Real estate held for resale, at cost	332,091	—
	1,040,734	778,654
PROPERTY, PLANT AND EQUIPMENT, at cost		
Natural gas transmission lines and distribution systems	46,340,607	42,611,315
Plant, buildings and equipment	2,994,367	2,739,509
Land and land rights	1,215,626	1,037,681
	50,550,600	46,388,505
Accumulated depreciation	6,353,399	5,442,858
	44,197,201	40,945,647
Interest in petroleum and natural gas properties	125,950	144,360
Accumulated depletion	52,406	50,796
	73,544	93,564
	44,270,745	41,039,211
OTHER ASSETS AND DEFERRED CHARGES		
Commission and expense on issue of preference shares	1,265,678	1,265,678
Unamortized discount and expense on funded debt	1,368,096	1,330,386
Incorporation and organization expenses	25,108	24,724
	2,658,882	2,620,788
	$51,677,387	$46,825,200

The accompanying notes are part of these financial statements.

BALANCE SHEET
UNE 30

LIABILITIES

CURRENT LIABILITIES	1969	*1968*
Bank loan	$ —	$ 2,258,293
Bankers' acceptances	—	1,000,000
Accounts payable	**1,383,343**	1,097,638
Dividends payable	**100,000**	100,000
Income taxes (Note 8)	**473,097**	—
Interest accrued on funded debt	**319,103**	313,346
Property and franchise taxes accrued	**553,236**	455,906
Bonds redeemable within one year	**442,000**	416,000
	3,270,779	5,641,183
FUNDED DEBT (Note 3)		
6¼ % First Mortgage Sinking Fund Bonds, Series C, due May 1, 1983	**18,036,000**	18,478,000
8% First Mortgage Sinking Fund Bonds, Series D, due December 31, 1989	**5,000,000**	—
5½ % Convertible Sinking Fund Debentures, Series A, due February 15, 1977	**5,600,000**	5,840,000
	28,636,000	24,318,000

SHAREHOLDERS' EQUITY

SHARE CAPITAL		
5% Cumulative preference shares, par value $20 per share, redeemable at not more than $21 per share Authorized: 500,000 shares Issued: 400,000 shares	**8,000,000**	8,000,000
Common shares, par value $1 per share (Note 4) Authorized: 5,000,000 shares Issued: 2,571,843 shares (1968—2,341,625 shares)	**2,571,843**	2,341,625
PREMIUM ON COMMON SHARES (Note 4)	**3,230,707**	1,158,745
RETAINED EARNINGS (Note 5)	**5,968,058**	5,365,647
	19,770,608	16,866,017
	$51,677,387	$46,825,200

Approved on behalf of the Board

JOHN A. McMAHON, Director

FRED B. BROWN, Director

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED JUNE 30

	1969	*1968*
SOURCE OF FUNDS		
Operations		
Net income for the year	$ 2,282,897	$ 2,548,421
Add – Non cash charges to income		
Depreciation and depletion	1,021,128	969,513
Amortization of discount and expense on funded debt	97,625	97,215
Cash flow from operations	3,401,650	3,615,149
Common shares issued	2,302,180	–
Funded debt issued	5,000,000	–
	10,703,830	3,615,149
APPLICATION OF FUNDS		
Additions to property, plant and equipment	4,252,662	2,802,336
Real estate purchased for resale	332,091	–
Investment in marketable securities	–	100,000
Sinking fund for bonds and debentures	682,000	656,000
Dividends on preference and common shares	1,628,367	1,395,191
Common share issue costs, net	52,119	–
Funded debt issue costs	135,719	–
Increase (decrease) in mortgages and long term receivables	(70,011)	299,232
	7,012,947	5,252,759
INCREASE (DECREASE) IN WORKING CAPITAL	$ 3,690,883	$ (1,637,610)

The accompanying notes are part of these financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Inland Natural Gas Co. Ltd. and its wholly-owned subsidiaries as at June 30, 1969 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
September 12, 1969.

RIDDELL, STEAD & CO.
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 1969

1. Principles of Consolidation

The consolidated financial statements include the accounts of Inland Natural Gas Co. Ltd. and its subsidiaries, all of which are wholly-owned.

2. Mortgages and Other Long Term Receivables

In prior years the Company recorded (1) the total principal and interest on all merchandise finance contracts in long term receivables and (2) the unearned interest portion as deferred income. With the commencement of computer billing of these contracts on July 1, 1968, only the principal is recorded in long term receivables. The 1968 figures have been restated to conform.

3. Funded Debt

The 5½ % Convertible Sinking Fund Debentures, Series A are (inter alia) unsecured obligations of the Company but are subject to restrictions of the Trust Indenture dated February 15, 1957. They are callable at a premium of 1.9% up to and including February 14, 1970 and thereafter at a reducing premium. The convertible feature of the debentures expired November 15, 1967.

The Trust Deeds for the Series C and D bonds and the Series A debentures, require the Company to establish sinking funds to retire approximately 50% of each issue prior to maturity. The annual requirements to date have been fulfilled by retirement of the stipulated principal amount of such securities. The requirements over the next five years are 1970 – $682,000; 1971 – $709,000; 1972 – $739,000; 1973 – $844,000; 1974 – $883,000. Prior to June 30, 1969, the Company had purchased and retired $240,000 Series A debentures in satisfaction of the 1970 sinking fund requirement for this issue.

4. Share Capital

On June 16, 1969 the Company sold $5,000,000, 8% First Mortgage Sinking Fund Bonds, Series D, with share purchase warrants attached which entitle holders to purchase common shares of the Company on or before June 15, 1979 at $17.50 per share. 75,000 unissued shares have been reserved to meet this commitment.

On February 3, 1969, 230,218 common shares were issued pursuant to a rights offering to shareholders, at $10 per share. Cash received from the sale of these shares was credited to share capital to the extent of par value and the remainder of $2,071,962 to premium on common shares.

5. Retained Earnings

Under the provisions of the Trust Deeds covering the issue of Series C and D bonds certain tests must be met before the Company can pay dividends on its Common Shares. The application of these tests to the accompanying financial statements indicates that all of the Company's retained earnings are available for distribution.

6. Directors' Remuneration

The total amount deducted in the Consolidated Statement of Income in respect of remuneration to directors including president's salary was $53,650.

7. Depreciation

Depreciation is computed on a straight-line basis in conformity with requirements of the Public Utilities Commission of British Columbia whereby approved depreciation rates for each class of plant, designed to amortize the cost of the assets over their estimated useful lives, are applied to the Company's investment in such plant at the beginning of the year. This procedure yielded a composite rate of 2.35% for the year ended June 30, 1969.

8. Income Taxes

The companies claim capital cost allowances and certain other deductions for income tax purposes in excess of the related amounts recorded in their accounts, thereby reducing income taxes which would otherwise have been charged against income by $756,000 for the 1969 fiscal year and $6,549,000 in total to June 30, 1969. Since only the taxes currently payable are allowed or are to be claimed for regulatory purposes in setting consumer rates, the companies follow the taxes payable basis and make no provision for such reductions. This method is approved by the companies' regulatory authorities and is considered appropriate in these circumstances by the Canadian Institute of Chartered Accountants.

Income tax reductions arising from claiming capital cost allowances in excess of recorded depreciation at current rates will continue to be realized for at least eight years under present tax rules if there are no additions to the companies' present depreciable assets, and for an extended period if the companies continue to expand their facilities.

9. Earnings Per Common Share

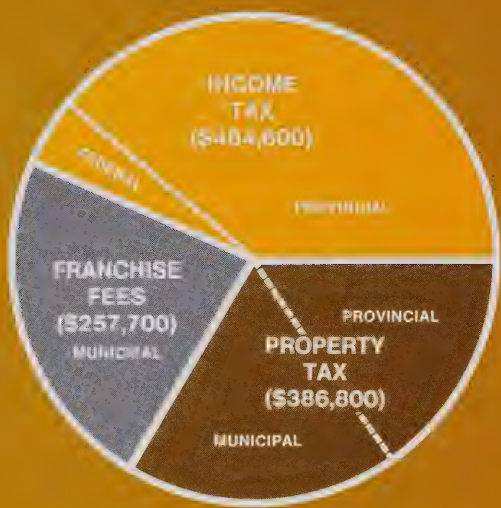
The earnings per common share are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years. The dividend requirements on preference shares of $400,000 each year were deducted from the income figures for purposes of these calculations.

10. Contingent Liability

The Company has guaranteed collection of certain second mortgages in the amount of $359,000 as at June 30, 1969 sold by Inland Development Co. Ltd.

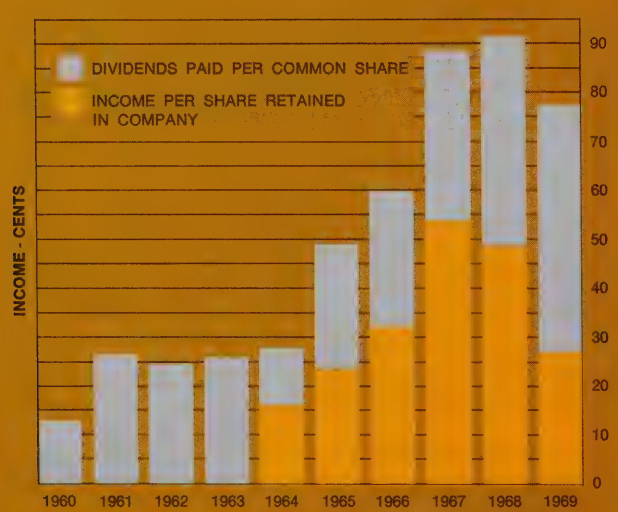
COMPARATIVE STATEMENT

DISTRIBUTION OF TOTAL TAX COSTS
($1,129,100)



YEAR ENDED JUNE 30, 1969

NET INCOME AND DIVIDENDS
PER COMMON SHARE



YEAR ENDED JUNE 30

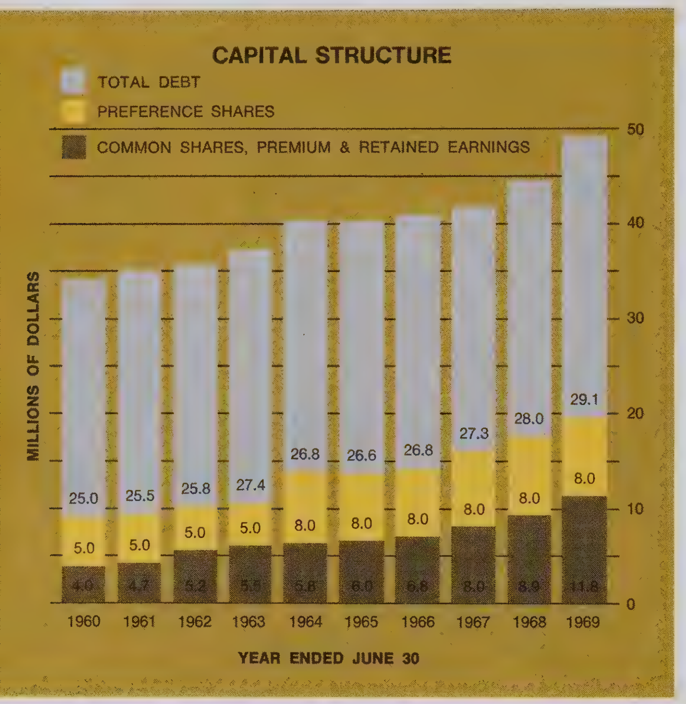
	1969
OPERATING REVENUES	
Sale of gas	$13,960,737
Transportation allowance*	199,400
Connection charges	61,096
Other operating income	303,667
	14,524,900
OPERATING EXPENSES	
Purchase of gas	6,702,964
Operation and maintenance	1,242,519
Provincial and municipal taxes	386,764
Franchise expense	257,692
General and administrative	522,250
Provision for depreciation	965,584
	10,077,773
INCOME FROM OPERATIONS	4,447,127
OTHER DEDUCTIONS	
Interest on borrowed money	1,791,638
Amortization of debt discount and expense	97,625
Loss on disposal of fixed assets	—
	1,889,263
INCOME BEFORE INCOME TAXES	2,557,864
INCOME TAXES	490,580
NET INCOME	2,067,284
INCOME FROM SUBSIDIARY COMPANIES (net)	215,613
NET CONSOLIDATED INCOME	$ 2,282,897
DIVIDENDS	
Preference shares	$ 400,000
Common shares	1,228,367
Total dividends	$ 1,628,367
NUMBER OF COMMON SHARES (average)	2,437,550
EARNINGS PER COMMON SHARE	
(after provision for preference dividends)	$ .77
DIVIDENDS PER COMMON SHARE	$ .50

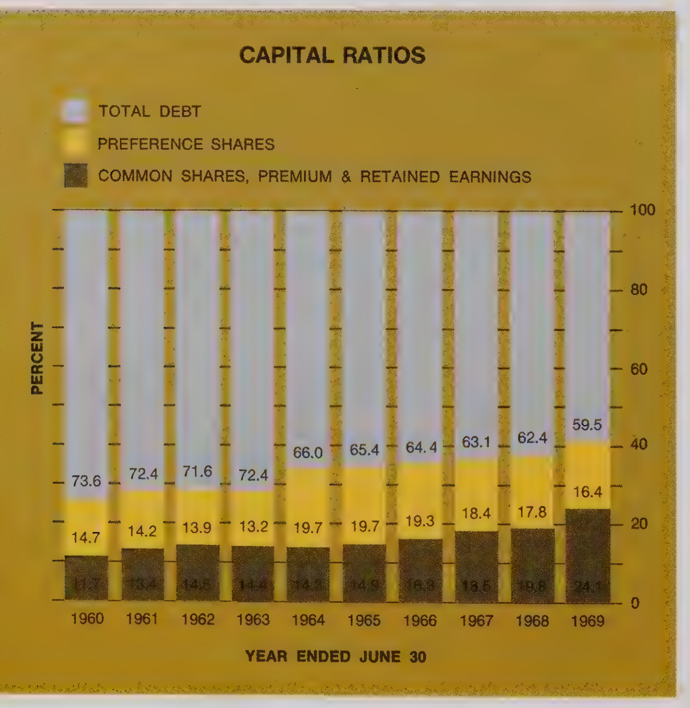
CONSOLIDATED INCOME AND DIVIDENDS

1968	1967	1966	1965	1964	1963	1962	1961	1960
12,545,300	12,234,227	9,799,765	8,479,660	7,423,563	6,556,089	5,878,547	4,868,967	3,857,049
151,800	151,800	174,053	175,656	151,800	151,800	151,800	568,470	642,604
63,115	59,690	57,310	47,317	41,570	37,260	30,965	27,250	25,325
251,299	232,753	191,754	162,873	150,617	90,188	36,894	29,726	64,564
13,011,514	12,678,470	10,222,882	8,865,506	7,767,550	6,835,337	6,098,206	5,494,413	4,589,542
5,971,774	5,694,852	4,280,876	3,557,154	3,212,773	2,996,460	2,750,838	2,527,295	2,078,833
984,408	1,075,979	975,191	769,718	686,755	615,373	482,089	368,406	337,339
346,214	316,294	298,680	262,875	225,686	185,064	168,141	122,994	85,307
211,725	199,773	192,324	175,890	147,940	128,841	116,549	88,445	81,322
501,964	542,463	416,817	366,420	295,732	221,411	180,155	171,731	139,350
916,347	868,390	803,515	768,834	733,427	493,426	244,783	25,280	25,527
8,932,432	8,697,751	6,967,403	5,900,891	5,302,313	4,640,575	3,942,555	3,304,151	2,747,678
4,079,082	3,980,719	3,255,479	2,964,615	2,465,237	2,194,762	2,155,651	2,190,262	1,841,864
1,708,993	1,680,905	1,637,693	1,631,624	1,637,036	1,582,600	1,524,156	1,477,505	1,451,009
97,215	97,215	97,215	97,215	97,130	61,468	57,277	46,286	43,966
–	–	–	–	379	3,801	6,593	11,576	–
1,806,208	1,778,120	1,734,908	1,728,839	1,734,545	1,647,869	1,588,026	1,535,367	1,494,975
2,272,874	2,202,599	1,520,571	1,235,776	730,692	546,893	567,625	654,895	346,889
–	–	–	–	–	–	–	–	–
2,272,874	2,202,599	1,520,571	1,235,776	730,692	546,893	567,625	654,895	346,889
275,547	286,423	285,628	301,741	314,517	322,701	264,041	236,924	212,200
2,548,421	2,489,022	1,806,199	1,537,517	1,045,209	869,594	831,666	891,819	559,089
400,000	400,000	400,000	400,000	400,000	250,000	250,000	250,000	250,000
995,191	819,569	643,948	585,406	292,703	–	–	–	–
1,395,191	1,219,569	1,043,948	985,406	692,703	250,000	250,000	250,000	250,000
2,341,625	2,341,625	2,341,625	2,341,625	2,341,625	2,341,625	2,341,625	2,341,325	2,341,300
.92	.89	.60	.49	.28	.26	.25	.27	.13
.42½	.35	.27½	.25	.12½	–	–	–	–

*Compensation paid by Westcoast Transmission Company Limited to Inland Natural Gas Co. Ltd. for the use of Inland's transmission facilities.

CONSOLIDATED BALANC



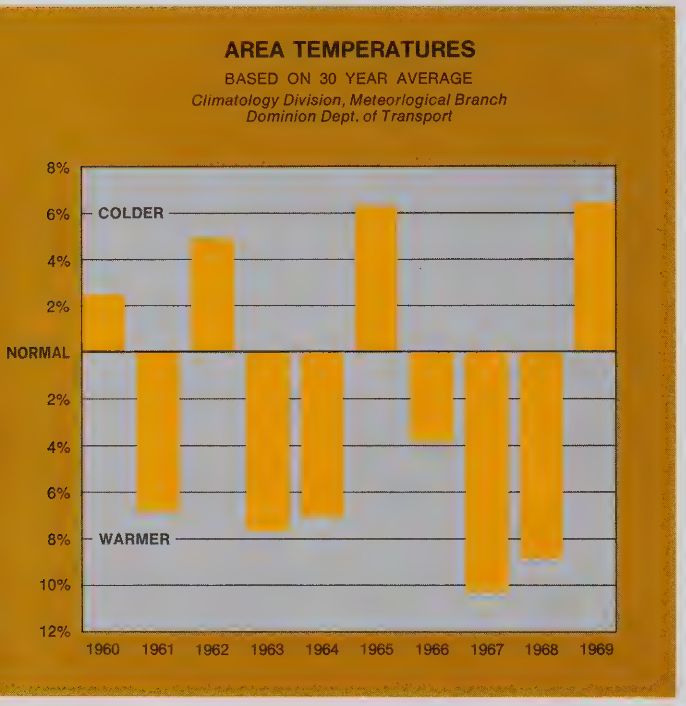


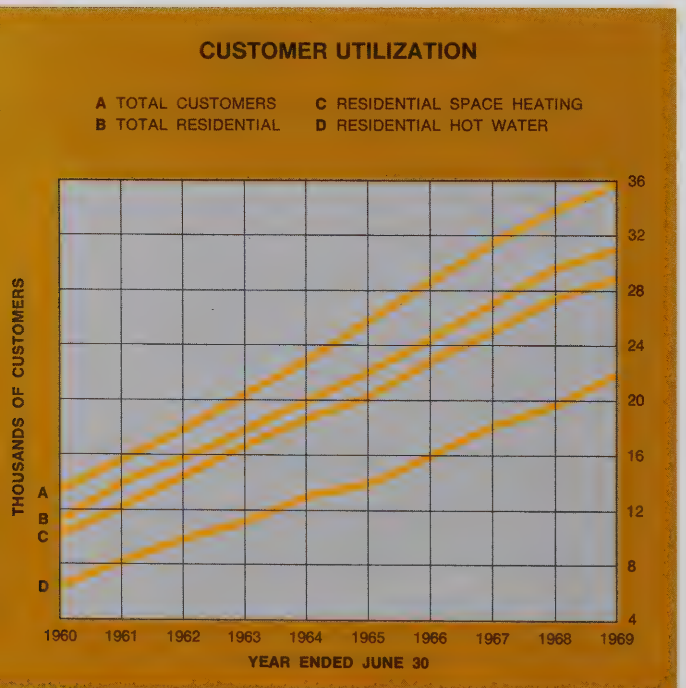
	1969
MILES OF COMPANY OWNED LINES	
Transmission	559
Distribution	691
Services	526
Transmission–subsidiaries	115
UTILITY PLANT ($000)	
Transmission	$21,322
Distribution	22,378
Stand-by	338
General	3,172
Construction work in process	896
Total Utility Plant	48,106
SUBSIDIARIES' PLANT	2,570
	50,676
ACCUMULATED DEPRECIATION	
Inland Natural Gas Co. Ltd.	5,726
Subsidiary companies (including depletion)	680
	6,406
NET CONSOLIDATED PLANT	$44,270
CAPITALIZATION ($000)	
First mortgage bonds	$23,478
Debentures	5,600
Short term notes and bank loan (net)	—
Total debt	29,078
Preference shares	8,000
Common shares	2,572
Premium on common shares	3,231
Retained earnings	5,968
	$48,849
PERCENT OF TOTAL CAPITALIZATION	
First mortgage bonds	48.1
Debentures	11.4
Short term notes and bank loan (net)	—
Total percent of debt	59.5
Preference shares	16.4
Common shares	5.3
Premium on common shares	6.6
Retained earnings	12.2
	100.0
RATIOS	
First mortgages debt interest – times earned	3.94
Total debt interest – times earned	2.65
Preference dividends – times earned	5.71

SHEET INFORMATION

1968	*1967*	*1966*	*1965*	*1964*	*1963*	*1962*	*1961*	*1960*
481	471	440	408	400	393	391	390	386
626	576	541	496	457	433	393	375	356
491	458	424	385	351	319	282	253	220
115	109	109	102	102	102	102	96	96
19,300	18,570	18,081	17,544	17,231	17,190	16,806	16,787	16,564
20,806	19,258	17,818	16,098	14,890	13,605	12,209	11,202	10,331
337	333	324	321	319	318	318	319	314
2,963	2,953	2,780	2,639	2,381	2,251	1,756	1,784	1,637
615	508	68	50	39	77	7	9	6
44,021	41,622	39,071	36,652	34,860	33,441	31,096	30,101	28,852
2,512	2,496	2,466	2,298	4,447	4,297	4,461	4,285	4,179
46,533	44,118	41,537	38,950	39,307	37,738	35,557	34,386	33,031
4,862	4,017	3,218	2,455	1,758	1,032	532	255	193
632	581	532	481	1,215	1,091	967	860	728
5,494	4,598	3,750	2,936	2,973	2,123	1,499	1,115	921
41,039	39,520	37,787	36,014	36,334	35,615	34,058	33,271	32,110
18,894	19,285	19,653	20,000	20,000	20,000	16,200	16,800	14,400
5,840	6,080	6,320	6,500	6,800	7,027	7,171	7,171	7,171
3,258	2,000	800	100	–	400	2,400	1,500	3,400
27,992	27,365	26,773	26,600	26,800	27,427	25,771	25,471	24,971
8,000	8,000	8,000	8,000	8,000	5,000	5,000	5,000	5,000
2,342	2,342	2,342	2,342	2,342	2,342	2,342	2,341	2,341
1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,157	1,157
5,366	4,526	3,262	2,519	2,316	1,964	1,734	1,224	483
44,859	43,392	41,536	40,620	40,617	37,892	36,006	35,193	33,952
42.1	44.5	47.3	49.2	49.3	52.8	45.0	47.7	42.4
13.0	14.0	15.2	16.0	16.7	18.5	19.9	20.4	21.2
7.3	4.6	1.9	.2	–	1.1	6.7	4.3	10.0
62.4	63.1	64.4	65.4	66.0	72.4	71.6	72.4	73.6
17.8	18.4	19.3	19.7	19.7	13.2	13.9	14.2	14.7
5.2	5.4	5.6	5.8	5.8	6.2	6.5	6.6	6.9
2.6	2.7	2.8	2.9	2.8	3.0	3.2	3.3	3.4
12.0	10.4	7.9	6.2	5.7	5.2	4.8	3.5	1.4
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
3.65	3.50	2.91	2.64	2.25	2.51	2.45	2.85	2.36
2.56	2.55	2.18	2.02	1.72	1.63	1.62	1.66	1.45
6.37	6.22	4.52	3.84	2.61	3.48	3.33	3.57	2.24

COMPARATIVE STATEMENT OF SALES





	1969
REVENUE ($000)	
Residential	$ 4,645
Commercial	3,316
Special construction	–
Small industrial	1,419
Industrial	4,581
Total natural gas revenue	$13,961
SALES (MMcf)	
Residential	4,200
Commercial	3,389
Special construction	–
Small industrial	2,050
Industrial	10,856
Total natural gas sales	20,495
CUSTOMERS AT YEAR END	
Residential	31,275
Commercial	4,635
Special construction	–
Small industrial	69
Industrial	21
Total customers at year end	36,000
CUSTOMER STATISTICS	
Average use per customer (Mcf)	
Residential	138
Commercial	756
Average rate per Mcf	
Residential	$ 1.11
Commercial	$ 0.98
COST OF NATURAL GAS PURCHASED ($000)	$ 6,703
VOLUME OF NATURAL GAS PURCHASED (MMcf)	20,507
MAXIMUM DAY SENDOUT (Mcf)	97,944

URCHASES AND CUSTOMER STATISTICS

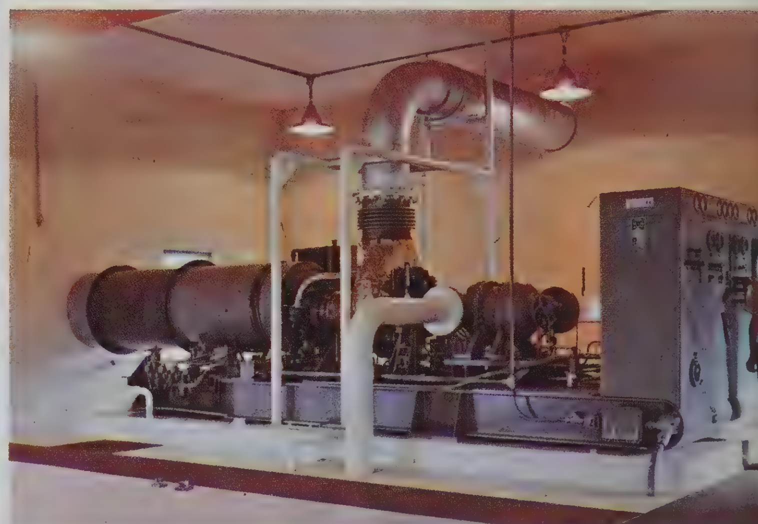
1968	1967	1966	1965	1964	1963	1962	1961	1960
3,994	3,862	3,804	3,722	3,159	2,788	2,601	2,068	1,832
2,748	2,391	2,421	2,201	1,720	1,491	1,397	1,130	1,011
28	45	66	1	—	—	—	—	—
1,142	1,238	837	535	376	243	146	131	110
4,633	4,698	2,672	2,021	2,169	2,034	1,735	1,540	904
12,545	12,234	9,800	8,480	7,424	6,556	5,879	4,869	3,857
3,424	3,020	2,772	2,546	2,133	1,867	1,790	1,391	1,267
2,702	2,295	2,171	1,895	1,456	1,257	1,197	947	863
38	59	89	1	—	—	—	—	—
1,688	1,842	1,211	747	527	345	209	199	155
12,218	12,543	7,103	5,420	5,964	5,680	4,953	4,428	2,773
20,070	19,759	13,346	10,609	10,080	9,149	8,149	6,965	5,058
29,437	27,133	24,508	22,020	20,148	18,007	15,739	13,798	11,686
4,318	4,013	3,687	3,355	2,979	2,677	2,266	1,986	1,732
58	219	398	20	—	—	—	—	—
78	79	73	58	48	36	22	13	13
24	23	19	19	23	23	20	14	10
33,915	31,467	28,685	25,472	23,198	20,743	18,047	15,811	13,441
121	117	119	121	112	111	121	109	121
649	596	617	598	515	509	563	509	561
1.17	1.28	1.37	1.46	1.48	1.49	1.45	1.49	1.45
1.02	1.04	1.12	1.16	1.18	1.19	1.17	1.19	1.17
5,972	5,695	4,281	3,557	3,213	2,996	2,751	2,527	2,079
19,823	19,387	13,103	10,513	10,011	9,031	8,058	6,931	5,043
84,624	80,447	58,353	51,740	42,711	48,466	43,393	31,614	23,609

Efficient service by qualified personnel leads to a good community relationship, and helps to assure future Company growth. Inland employees meet this challenge with enthusiasm and continuous training helps maintain a high standard of workmanship.

Right—Instant replay television tape recording equipment, one of the Company's training tools.

Below—Serviceman adjusts natural gas range.

Below, right—Employee inspects control board at compressor station.



Below, left to right—Lubricating service valve — business offices provide information and service to customers — efficiency test on large boiler — fabricating company plant.

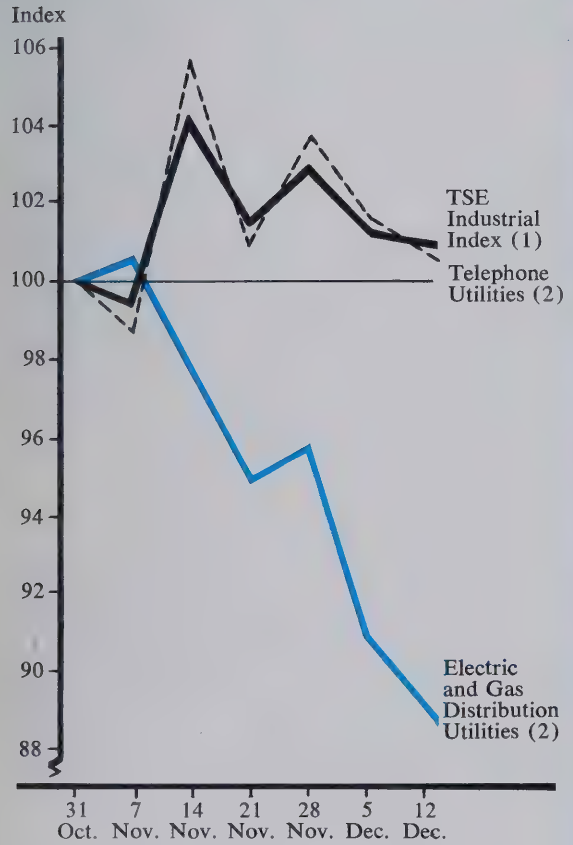
COMMUNITIES SERVED

W. A. C. Bennett Damsite
Westsyde
Valleyview
Summerland
Penticton

AR12

STOCK MARKET TRENDS

October 31 - December 12, 1969



(1) Toronto Stock Exchange Industrial Index (October 31, 1969 = 100)

(2) Utility Indices computed from week-end closing market prices times TSE Industrial Company Weightings utilized in TSE Industrial index and reported in the November 1969 Toronto Stock Exchange Review.

Source—Financial Post
—Toronto Stock Exchange Review

INLAND

NATURAL GAS CO. LTD.

INTERIM REPORT

DECEMBER 31, 1969

Oyama compressor station.

FOLD OUT FOR SYSTEM MAP

Efficient service by qualified personnel leads to a good community relationship, and helps to assure future Company growth. Inland employees meet this challenge with enthusiasm and continuous training helps maintain a high standard of workmanship.

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Below—Serviceman ad

Below, right—Employe
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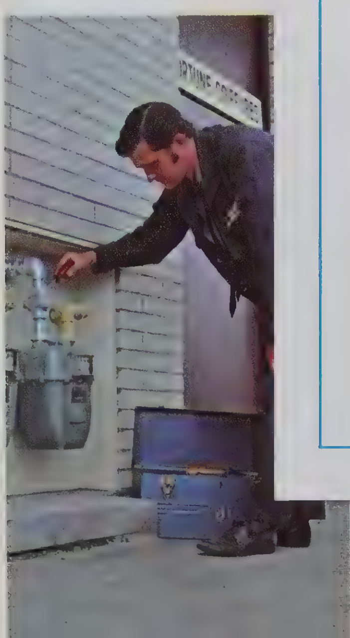
Below, left to right—Lu
and service to custome



INLAND NATURAL GAS CO.

COMPARATIVE STATEMENT OF CONSOLIDATED INCOME

(Subject to audit and year-end adjustments)

	Six Months Ended Dec. 31, 1969	Six Months Ended Dec. 31, 1968
Revenue		
Sale of gas	**$6,543,760**	$6,401,478
Transportation allowance	**118,089**	80,644
Subsidiary companies (net before income tax)	**156,970**	160,745
Other income	**127,477**	119,299
	6,946,296	6,762,166
Expenses		
Purchase of gas	**3,224,573**	3,034,654
Operating expenses	**1,147,647**	1,091,954
Interest and amortization of long term debt	**991,587**	800,794
Interest on bank loan	**29,765**	159,881
Depreciation and depletion, including subsidiaries	**520,877**	505,167
	5,914,449	5,592,450
Income before income taxes	**1,031,847**	1,169,716
Provision for income taxes	**112,912**	146,624
Net income	**$ 918,935**	$1,023,092
Dividends declared on preference shares	**200,000**	200,000
	$ 718,935	$ 823,092
Average common shares outstanding on December 31st	**2,571,843**	2,341,625
Earnings per average common share (after provision for dividends on preference shares)	**$0.28**	$0.35
Sale of natural gas — Mcf	**9,512,744**	9,639,137

COMPARATIVE
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Source of Funds
Net income for t
Add — Non-c
Depreciatio
Amortizatio
expense (

Application of Fun
Additions to pro
and equipmen
Dividends on pre
common share
Increase in non-

Decrease in workin

COMMUNITIES SERVED

W. A. C. Bennett Damsite
Hudson's Hope
Chetwynd
Mackenzie
Shelley
Prince George
Quesnel

Westsyde
Valleyview
Falkland
Armstrong
Enderby
Salmon Arm
Canoe
Vernon

Summerland
Penticton
Naramata
Okanagan Falls
Oliver
Osoyoos
Midway
Grand Forks

., and wholly-owned subsidiary companies

ATEMENT OF CONSOLIDATED SOURCE APPLICATION OF FUNDS

	Six Months Ended Dec. 31, 1969	Dec. 31, 1968
x months	**$ 918,935**	$1,023,092
harges to income depletion	**520,877**	505,167
liscount and nded debt	**52,596**	48,607
	1,492,408	1,576,866
plant	**2,273,590**	2,216,706
ce and	**842,961**	785,406
nt assets	**17,487**	49,158
	3,134,038	3,051,270
pital	**$1,641,630**	$1,474,404

TO OUR SHAREHOLDERS

This report covers the six month period ending December 31, 1969, and a comparative statement of earnings for the six months ending December 31, 1968. Also included in the report is a comparative statement of "Source and Application of Funds".

Earnings

In December 1968, the coldest weather on record blanketed Inland's service area with the result that a new peak day for firm sales was created. The peak day establishes the demand component in the cost of gas calculation and we are required under the gas purchase contract with our supplier to pay for this peak day until the beginning of each new contract year which is November 1st. When comparing the six months under review with those of last year, demand charges for gas increased $200,000, which is about twice the normal amount required to provide for the annual growth in load. As a result, the increase in revenue as indicated in the comparative statement of earnings, was more than absorbed by the increase in operating expenses. The largest item in the expense statement was the cost of gas.

Since November 1, 1969, the firm peak day requirements have been at a slightly lower level with the result that demand charges are less despite the fact that there has been an 8.3% growth in the number of customers over the like period last year. The number of consumers as at December 31, 1969, was 38,804, versus 35,825 as of December 31, 1968.

Capital Program

Included this year are plans to install peak shaving facilities which will enable us to reduce the demand for gas from our supplier during periods of peak loads and thereby minimize the cost of gas.

New Industries

Recent announcements about new industrial plants to be constructed in Inland's service area include Crown Zellerbach's $8 million plywood plant near Armstrong in the Okanagan Valley.

Oyama compressor station.

FOLD OUT FOR SYSTEM MAP

Efficient service by qualified personnel leads to a good community relationship, and helps to assure future Company growth. Inland employees meet this challenge with enthusiasm and continuous training helps maintain a high standard of workmanship.

Right—Instant replay television tape recording equipment, one of the Company's training tools.

Below—Serviceman adj

Below, right—Employee station.

Below, left to right—Lu and service to custome

This plant is expected to be in production in early 1971. The company indicated that about 100 people will be employed in this operation. B.C. Forest Products' $90 million pulp and wood products complex at Mackenzie is now under construction and scheduled for production in 1972. About 400 men will be employed over the two year construction period, and when in full operation the new facilities will mean the addition of approximately 1,000 men to the 250 now employed in the plywood and lumber operations. On December 9, 1969, it was announced that Weldwood of Canada Ltd. signed a contract to form a partnership with the Japanese interests, Daishowa Paper Manufacturing Co. and Mirubeni-Ilda, to build and operate a 600-ton-a-day bleached kraft pulp mill at Quesnel. The capital outlay is indicated at about $75 million with construction expected to start in 1970. Consumers Glass' $12 million plant near Vernon began to take natural gas in November at a rate of approximately 1½ million cubic feet daily; Lafarge Cement's new $12 million plant near Kamloops is expected to start production in March with an initial requirement of approximately 1 million cubic feet of natural gas per day. A contract is in the course of being finalized to supply up to 5 million cubic feet per day to Hiram Walker & Sons Ltd.'s new distillery at Winfield, which is expected to be in production about a year from this date.

White Paper

We would like to inform you of the effect certain proposals in the White Paper have on Inland's shareholders and its consumers. As you are aware, your Company frequently requires new capital to meet the growth in customer demand for nautral gas. Timing and financing is not a matter of choice but is dictated by the growth in the service area. With the bond market virtually closed by extremely high interest rates, the only other sources open are convertible debt securities and equity financing. *Under the White Paper proposals, shareholders of investor-owned gas utilities will not only lose the present 20% dividend tax credit but also will be denied the proposed new tax credit to shareholders.* This will reduce investor interest in these securities, thereby increasing the cost of financing which in the end will mean higher consumer rates. This is definitely inflationary and also very unnecessary to place gas and electric utilities in this unfavourable postion. The reaction of the investing public to the securities of these utilities has been most unfavourable as witnessed by the chart attached herewith showing how the shares of this group have declined since the White Paper was announced in relation to other corporate stocks listed on the Toronto Stock Exchange.

Fortunately, the Federal Government has indicated a willingness to consider suggestions to amend the White Paper. The Canadian Gas Association representing its 28-member gas utility companies, which collectively have an investment of several billions of dollars in utility systems and serve 2½ million consumers, has submitted a brief setting forth very good reasons why this proposal should be amended immediately. This is something that cannot be postponed! We respectfully suggest that you, as an interested investor, write the Federal Minister of Finance, Honourable E. J. Benson, and record your views on this subject.

Dividends

On January 22, 1970, the Board of Directors declared a quarterly dividend of 12½c per share on the common stocks payable February 15, 1970, to shareholders of record at the close of business February 2, 1970.

Appointments

On behalf of the Board of Directors, I am pleased to announce that two senior officers of the Company, who have given long and excellent service, have been appointed to the Board of Directors. They are Mr. R. B. Stokes, Executive Vice-President, Finance and Operations, and Mr. D. R. MacPhail, Vice-President, Legal Counsel.

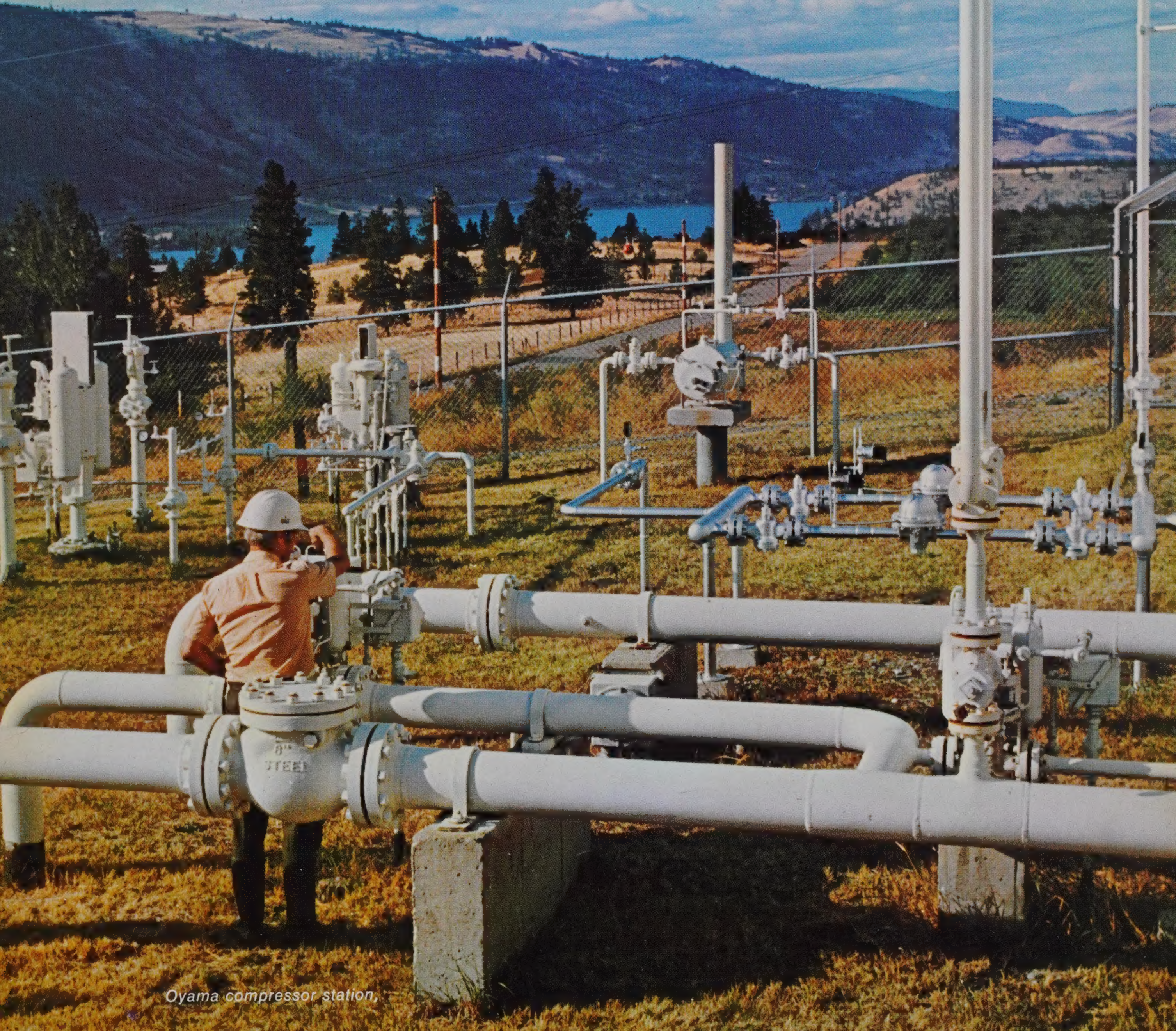
J. R. McMahon

President

Vancouver, B.C.
February 9, 1970

COMMUNITIES SERVED

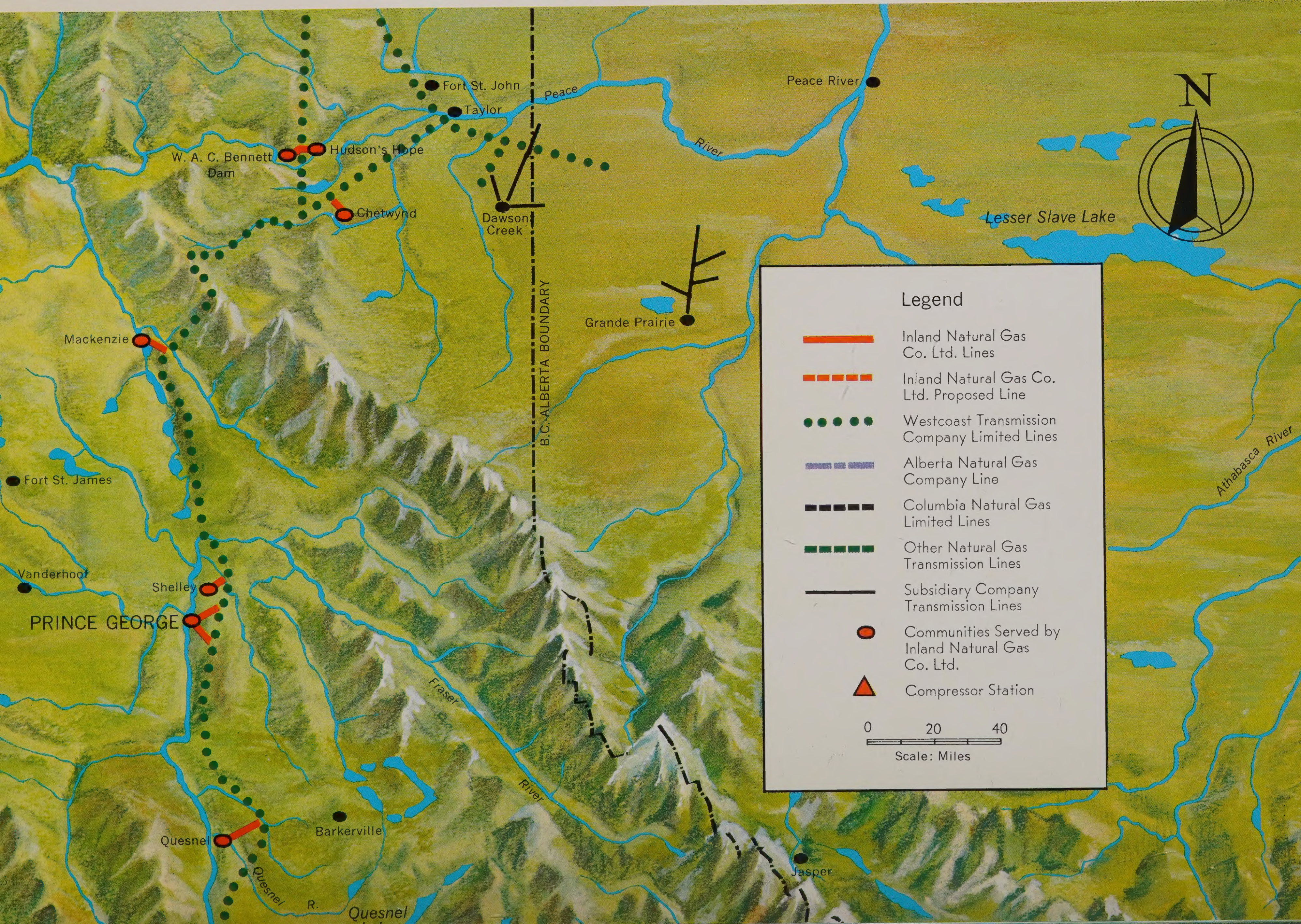
W. A. C. Bennett Damsite
Hudson's Hope
Chetwynd
Mackenzie
Shelley
Prince George
Quesnel
Williams Lake
Lac La Hache
100 Mile House
Clinton
Merritt
Princeton
Savona
Brocklehurst
Kamloops
Westsyde
Valleyview
Falkland
Armstrong
Enderby
Salmon Arm
Canoe
Vernon
Coldstream
Lumby
Oyama
Winfield
Kelowna
Okanagan Mission
Rutland
Peachland
Westbank
Summerland
Penticton
Naramata
Okanagan Falls
Oliver
Osoyoos
Midway
Grand Forks
Rossland
Trail
Tadanac
Warfield
Kinnaird
Castlegar
Robson
Nelson



Oyama compressor station.

FOLD OUT FOR SYSTEM MAP

INLAND NATURAL GAS CO. LTD. DISTRIBUTION AREA



ALBERTA
BRITISH COLUMBIA
WASHINGTON
IDAHO
MONTANA
Columbia Snowfields
Lake Louise
Banff
Williams Lake
Lac La Hache
100 Mile House
Clinton
Ashcroft
Savona
KAMLOOPS
Salmon Arm
Canoe
Enderby
Armstrong
Falkland
VERNON
Coldstream
Lumby
COMPRESSOR STATION
Okanagan Lake
Oyama
Winfield
KELOWNA
Rutland
Westbank
Peachland
Summerland
Naramata
PENTICTON
Okanagan Falls
Oliver
Osoyoos
Merritt
Princeton
Shuswap Lake
Revelstoke
Columbia River
Fraser River
Arrow Lake
Kootenay Lake
NELSON
Robson
Castlegar
Kinnaird
Fruitvale
Salmo
Montrose
TRAIL
Rossland
Grand Forks
Midway
Creston
Skookumchuck
Kimberley
Cranbrook
Crowsnest
Fernie
Vancouver
Nanaimo
Victoria
Bellingham
CANADA-U.S.A. BORDER